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SUBJECT: PRICE FREEZE IMPOSED ON MEDICINES AND MEDICAL
PRODUCTS

¶1. (U) Summary. Ukraine's parliament has enacted a new law fixing prices of imported medicines and medical products at their July 1, 2008 levels. Prices of domestically produced medicines would be regulated by the GOU under the legislation. Industry analysts expect the law would negatively impact the 2 billion USD pharmaceutical industry and create market shortages, but indications are that President Yuschenko will veto the legislation. End Summary.

¶2. (U) The Verkhovna Rada passed Draft Law no. 3426 into law, setting a moratorium on the increase in prices for pharmaceuticals and medical products. The bill was registered by two Communist Party deputies, Pyotr Simonenko and Vladimir Matveev, in December, 2008, following sharp local-currency price increases (42.2% over the past 12 months) on medicines, largely due to the devaluation of the Ukrainian hryvnia (UAH). Until the GOU introduces official price lists for domestic pharmaceuticals and medical products, those items will also be set at their July 1, 2008 UAH prices. Medicines made domestically will be sold at prices regulated by the GOU, while the prices of imported medicines will be fixed at their local-currency prices as of July 1, 2008.

¶3. (U) Imported medicines make up 65% of the 2 billion USD Ukrainian market. Medical importers do not have significant back stock purchased at July 2008 prices, and analysts expect that new deliveries will be suspended, causing shortages and industry losses of approximately UAH 6-7 billion (750 million USD). When the Cabinet of Ministers established limits on profit margins for medications in December 2008, pharmacies saw the volume of imports drop and even basic imported medicines, such as imported antibiotics, became more difficult to find for consumers. The limits are still in effect, through local business sources indicate that they are no longer being enforced. The head of global pharmaceutical firm AstraZeneca's Ukrainian branch, Vladimir Ignatov, said that imports will not be possible if the law is implemented, unless the GOU subsidizes distributors who incur losses or offers a special optimal exchange rate for importers. The medical importers' lobby attempted unsuccessfully to prevent the adoption of the bill on the second reading, and is now pinning hopes on a promised presidential veto and challenges to the law's constitutional validity.

¶4. (SBU) Comment. Since resuming its legislative functions in early October, the Verkhovna Rada has pushed forward a number of populist bills. With Ukraine's presidential election coming in January 2010, it appears that, in this instance, Ukraine's parliamentarians are attempting to curry favor with the electorate with price controls. End comment.
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